



# TOWN OF ATHERTON

ADMINISTRATIVE OFFICES  
80 FAIR OAKS LANE  
ATHERTON, CALIFORNIA 94027  
(650) 752-0500

---

**SENT VIA ELECTRONIC EMAIL**

February 22, 2022

The Honorable Sydney Kamlager  
Chair, Senate Budget Subcommittee #4 on State Administration and General Government  
1021 O Street, Suite 6510  
Sacramento, CA 95814

The Honorable Wendy Carrillo  
Chair, Assembly Budget Subcommittee #4 on State Administration  
1021 O Street, Suite 5730  
Sacramento, CA 95814

**SUBJECT: Proposed Trailer Bill Regarding Insufficient Educational Revenue Augmentation Fund (ERAF) Backfills--OPPOSE UNLESS AMENDED**

Dear Chair Kamlager & Chair Carrillo:

On behalf of the Town of Atherton, I write to convey our opposition to the proposed trailer bill currently titled "Insufficient Educational Revenue Augmentation Fund Backfills," unless amended. The proposed trailer bill would change the current VLF statute in a way that significantly harms counties and cities by using their own local tax revenues to pay the State's in-lieu Vehicle License Fee (VLF) obligation. Specifically, the proposal would take local agencies own "excess" or "returned" educational revenue augmentation fund (ERAF) dollars that are currently required to be returned to local agencies after all school districts have been fully funded and would use the local agencies' funds to pay the State's VLF obligation. This proposal ultimately will result in San Mateo County and its cities losing hundreds of millions of dollars every year when all schools in the County turn basic aid. These funds are already budgeted by many municipalities for important local public services.

The VLF "Swap" was an integral part of the 2004 Budget compromise in which counties and cities gave up significant revenue to address the State's budget deficit. Under the terms of that compromise, the State permanently reduced annual VLF revenues, which were a significant funding source for counties and cities, by 67.5% and, for two fiscal years, the State also shifted

80 FAIR OAKS LANE | ATHERTON, CALIFORNIA 94027 | PH: (650) 752-0500 EM: TOWN@CI.ATHERTON.CA.US

[www.ci.atherton.ca.us](http://www.ci.atherton.ca.us)

an additional \$1.3 billion in local property taxes away from all counties, cities, and special districts to pay the State's school funding obligations. In exchange, the State guaranteed counties and cities an annual in-lieu VLF payment (adjusted annually for property tax growth) to compensate for the loss of the prior VLF revenues. **The resulting VLF law, which codified this compromise and remains in effect, explicitly provides that counties and cities' excess ERAF monies would not be available to pay the State's VLF obligation.** Further, the State Legislature agreed to place Proposition 1A on the ballot that, as approved by the voters, amended the Constitution to ensure that future "shifts" of local agency funds would not be used to cover State obligations.

The VLF Swap legislation identified two direct sources of funding to pay the State's in-lieu VLF obligation to counties and cities:

- (a) ERAF distributions to non-basic aid schools; and
- (b) property tax revenues of non-basic aid schools.

The State backfills the non-basic aid school districts for these amounts so schools do not suffer any financial loss from the in-lieu VLF obligation. The Legislature did not anticipate the identified funding sources would ever be insufficient to fulfill the State's VLF obligation. In recent years, however, VLF revenue shortfalls have occurred and, as a result, cities and counties have been required to make special appropriation requests to receive their full amount of VLF in arrears.

Because of the importance of the State's required in-lieu VLF payments as an annual funding source for local agencies, in 2021, the counties of San Mateo and Napa proposed a statutory fix that would streamline the timing and process for reimbursement of VLF shortfalls. Under the proposal, elements of which are reflected in the proposed trailer bill, counties would alert the Department of Finance of anticipated VLF shortfalls in time for the State to budget and allocate payment during the fiscal year in which the shortfall occurs, as opposed to the current process wherein the State pays its VLF obligation approximately 14 months in arrears. This would prevent disruption to necessary local public services or reductions in staffing at the County or its cities.

Rather than solve this issue, the Department of Finance's proposed Budget Trailer Bill includes an amendment to Revenue & Taxation Code § 97.70(f)(1) which fundamentally changes the source of funds to pay the State's VLF obligation to counties and cities. This change does not solve the VLF shortfall problem but actually harms local agencies by using **their own local tax revenues to pay the State's VLF obligation.** A county with all -- or nearly all -- basic aid school districts will be financially harmed -- severely and permanently -- if this proposed trailer bill is enacted in its current form.

Indeed, in Atherton, returned ERAF monies fund the Town's long-term liabilities, one-time capital projects, and other budgetary obligations and comprise approximately 11% percent of our Town's overall General Fund. The loss of this funding will have a devastating impact on our Town's budget and ability to continue providing needed local services.

As such, the Town urges the following amendments to Revenue and Taxation Code § 97.70(f)(1) of the draft trailer bill. These amendments will return the section to current law:

(f) This section shall not be construed to do any of the following: (1) Reduce any allocations of excess, additional, or remaining funds that would otherwise have been allocated to county superintendents of schools, cities, counties, and cities and counties pursuant to clause (i) of subparagraph (B) of paragraph (4) of subdivision (d) of Sections 97.2 and 97.3 or Article 4 (commencing with Section 98) had this section not been enacted. The allocations required by this section shall be adjusted to comply with this paragraph. For the 2022-23 fiscal year and each fiscal year thereafter, funds allocated to a city, county, or a city and county pursuant to subclause (III) of clause (i) of subparagraph (B) of paragraph (4) of subdivision (d) of Sections 97.2 and/or 97.3, shall be counted by the auditor toward satisfying the city's, county's, or city's and county's vehicle license fee adjustment amount.

In sum, Town of Atherton strongly opposes the current draft of the proposed trailer bill, absent the critical changes proposed in this letter. Without these changes, the current trailer bill reneges on commitments that the State previously enacted into law regarding the source of VLF funding, violates Prop 1A and the terms of the 2004 budget compromise between the State and local agencies, and ultimately takes hundreds of millions of dollars from local agencies' budgets, their employees, and the critical public safety and health services provided by local agencies.

Sincerely,

  
Rick DeGolia  
Mayor  
Town of Atherton

CC: Senator Josh Becker  
Senator Scott Weiner  
Assembly Member Kevin Mullin  
Assembly Member Marc Berman  
Assembly Member Phil Ting  
San Mateo County Board of Supervisors  
San Mateo County, County Manager Mike Callagy  
Atherton City Council